

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
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FM AMCONSUL LUBUMBASHI

TO SECSTATE WASHDC 2067

INFO AMEMBASSY BRUSSELS

AMEMBASSY KINSHASA

AMCONSUL BUKAVU

AMEMBASSY LUSAKA

AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 LUBUMBASHI 0328

E.O. 11652: N/A

TAGS: ECON, ELTN, EMIN, CG

SUBJ: ECONOMIC SITUATION IN SHABA PROVINCE

1. SUMMARY. MAJOR COMPONENTS OF SHABA ECONOMY, GECAMINES AND SNCZ HARASSED BUT AS YET NOT SEVERELY AFFECTED BY WAR. GCM'S PRODUCTION LEVEL CLOSE TO PRE-YEAR PROJECTIONS, THANKS TO COAL/COKE SHIPMENTS FROM GERMANY WHICH HAVE ALLOWED CREATION OF MODEST STOCKPILE. GCM OPERATIONS AT KOLWEZI CONTINUE AT NORMAL PACE DESPITE FAZ REQUISITION OF VEHICLES, EXPATRIATE AND WORKER UNREST, AND FINANCING PROBLEMS ON EXPANSION PROGRAM. SNCZ NOT DRAMATICALLY AFFECTED BY WAR, BUT FACING HOST OF PROBLEMS INCLUDING SHORTAGE OF DIESEL FUEL, SPARE PARTS, WAGONS, AND LOCOMOTIVES. WHOLESALE/RETAIL BUSINESS REMAINS SLOW, BUT PICKING UP SLIGHTLY. END SUMMARY.

2. GECAMINES HAS FOUND SHABA WAR TO BE MORE ANNOYANCE THAN
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SERIOUS BLOW TO PRODUCTION. PRODUCTION FOR FIRST FOUR MONTHS, ACCORDING TO GCM DELEGATE-GENERAL UMBA, WAS JUST SHORT OF 150,000 METRIC TONS, SHOWING LOSS OF ONLY 2,500 METRIC TONS FROM ADVANCE PROJECTION FOR PERIOD. SINCE PROJECTED FIGURE WAS 460,000 TONS FOR 1977, PRODUCTION CLEARLY RUNNING AHEAD OF 1976 FIGURE OF 407,000 TONS. MAIN ELEMENT OF RECOVERY HAS BEEN SHIPMENTS OF COAL AND COKE FROM WEST GERMANY VIA DAR-TAZARA RAILROAD, WHICH

HAVE SUPPLEMENTED CONTINUING SUPPLY FROM RHODESIA AND HAVE PERMITTED BUILDING OF MODEST TWO-WEEK STOCK. SNCZ HAS HAD TO TIVE UP 50 RR CARS TO TAZARA FOR TRANSPORT OF GCM'S COKE/COAL FROM DAR, AS ZAMBIANS CLAIM INADEQUATE NUMBER OF CARS FOR OPERATION WITHOUT THIS SUPPLEMENT. LOSS FROM PROJECTION STILL MAINLY ATTRIBUTABLE TO COKE SHORTAGE AT LUBUMBASHI FACTORY, THOUGH LIKASI INSTALLATIONS ALSO RUNNING SLIGHTLY BEHIND PROJECTIONS.

3. GCM'S KOLWEZI OPERATIONS NOT SERIOUSLY DAMAGED THUS FAR BY WAR. KOLWEZI PRODUCTION ONLY SLIGHTLY BEHIND PRE-YEAR PROJECTIONS, DESPITE FACT MOST OF 100 VEHICLES TAKEN BY FAZ FROM GCM COME FROM KOLWEZI. LITTLE DOUBT THAT MAINTENANCE PROBLEMS WITH FAZ-REQUISITIONED VEHICLES AND OVERUSE OF REMAINING ONES WILL CAUSE PRODUCTION TO DIP LATER IN YEAR, BUT NO ONE ABLE TO ESTIMATE HOW MUCH. GCM P-2 EXPANSION PROJECT IN KOLWEZI SECTOR NOT AFFECTED BY WAR, THOUGH P-2 EXPERIENCING SOME FINANCIAL PROBLEMS SINCE EUROPEAN INVESTMENT BANK HALTED DISBURSEMENTS BECAUSE OF OBJECTIONS TO NEW REPAYMENT PROCEDURE WHEREBY SOZACOM TO CHANNEL PAYMENTS THROUGH BANK OF ZAIRE INSTEAD OF PAYING DIRECTLY TO LENDER.

4. GCM HAS WITHSTOOD RUMBLES FROM BOTH EXPATRIATE CADRES AND ZAIRIAN WORKERS IN RECENT WEEKS. KOLWEZI CADRES PRESENTED PETITION THIS WEEK TO DG UMBA DEMANDING HE MEET WITH PRESIDENT MOBUTU TO FORCE END TO FAZ BARRICADES IN KOLWEZI AND ASSURE MOROCCANS AND GCM'S OWN SECURITY FORCE CONDUCT PATROLS INSTEAD OF FAZ. ALSO UNHAPPINESS AMONG EXPATRIATES OVER GOZ REQUISITION OF 25 GCM HOUSES IN KOLWEZI FOR USE BY OFFICIALS IN PRESIDENTIAL ENTOURAGE. UMBA HAS HAD TO MAKE SERIES OF APPEARANCES IN KOLWEZI. LIKASI, AND KIPUSHI BEFORE ZAIRIAN AUDIENCES TO DENY LIMITED OFFICIAL USE

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RUMORS OF WAGE INCREASE AMONG RESTIVE WORKERS. NO STRIKES THUS FAR BY EITHER EXPATRIATES OR WORKERS, THOUGH KOLWEZI WORK SCHEDULE IN MINES HAS BEEN DISRUPTED BY HEAVY ABSENTEEISM BECAUSE OF SHORTAGE OF VEHICLES AND FEAR OF FAZ HARASSMENT.

5. GCM BEARING UP REASONABLY WELL, BUT RAILROAD COMPANY ON WHICH IT SO HEAVILY DEPENDS IS NOT. SNCZ'S DIFFICULTIES SO ENORMOUS THAT WAR'S IMPACT INSIGNIFICANT COMPARED TO ONGOING PERENNIAL PROBLEMS. MOST PRESSING IMMEDIATE PROBLEM IS FUEL SITUATION. AS OF MAY 13, ONLY 221 CUBIC METERS OF DIESEL HAD ARRIVED FROM ZAMBIA IN MAY, COMPARED WITH NORMAL MONTHLY REQUIREMENT OF 2,200 CUBIC METERS. STOCKS AVERAGE FOUR DAYS AT VARIOUS DEPOTS. FUEL SHORTAGE NOT NEW, BUT AGGRAVATED BY ADMINISTRATIVE SNAFUS AND DISPUTES SINCE RETURN OF PETROFINA, MOBIL, AND TEXACO. OIL COMPANIES HAVE REFUSED TO CONTINUE SUPPLY OF KALEMIE FROM KIGOMA REFINERY, SO KALEMIE NOW DEPENDENT ON SHIPMENTS FROM LUBUMBASHI, AND NONE AVAILABLE FOR THE SECTOR. PASSENGER TRAFFIC SHARPLY REDUCED BECAUSE OF SHORTAGE, THUS FAR FREIGHT TRAFFIC LESS AFFECTED.

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R 230800Z MAY 77
FM AMCONSUL LUBUMBASHI
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INFO AMEMBASSY BRUSSELS
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LIMITED OFFICIAL USE SECTION 2 OF 2 LUBUMBASHI 0328

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CLOSE SECOND TO FUEL PROBLEM IS IMPORT
OF SPARE PARTS. ARREARS BY BANK OF ZAIRE ON PAYMENTS ON HEHALF
OF SNCZ TO FOREIGN CREDITORS NOW STAND AT \$12,000,000 AND ONLY
BELGIUM, SOUTH AFRICA, AND OCCASIONALLY WEST GERMANY HAVE CON-
TINUED TO SEND PARTS IN FACE OF ONE YEAR PLUS PAYMENT DELAYS.
SPARE PARTS PURCHASES COMPLICATED BY BANK OF ZAIRE DECISION IN
MARCH TO STOP GUARANTEEING UNCONFIRMED LETTERS OF CREDIT, WHICH
HAS PERSUADED PREVIOUSLY LOYAL SUPPLIERS OF SNCZ AND OTHERS
TO REFUSE 1/C'S. SOLUTION TO SHORTAGE OF RR CARS AND LOCOMOTIVES
NOT YET IN SLIGHT, WITH ANGOLA BEGINNING RETURN OF SIX ZAMBIAN
RAILWAY LOCOMOTIVES AND RR CARS BUT REFUSING TO RELEASE 700 SNCZ
CARS BLOCKED IN ANGOLA, WITH SNCZ LOCOMOTIVES COMPELLED TO GO
ALL THE WAY TO NDOLA FOR GCM COAL/COAL/COKE/MAIZE BECAUSE OF ZAMBIAN
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REFUSAL TO SEND ITS OWN LOCOMOTIVES FURTHER, AND WITH LOSS OF ANOTHER 100 CARS AND THREE LOCOMOTIVES IN WESTERN SHABA TO REBELS. RECENT GCM PAYMENT OF \$750,000 HARD CURRENCY TO SNCZ FOR PURCHASE OF LOCOMOTIVE SPARE PARTS HIGHLIGHTS REALITY THAT SNCZ SALVATION WILL HAVE TO COME FROM GCM, NOT GOZ. NO SIGN THAT SNCZ'S STEADY 2 MILLION ZAIRE PER MONTH LOSS PERFORMANCE WILL CHANGE IN FORESEEABLE FUTURE, NOR THAT GOZ WILL FULFILL ITS STATUTORY OBLIGATION TO REIMBURSE SNCZ FOR DEFICIT.

6. WHOLESALE/RETAIL BUSINESS NOT YET AT PRE-INVATION LEVEL, AS MANY RETAILERS STILL NOT WILLING TO VENTURE ON MILITARY-CONTROLLED ROADS FOR FEAR OF SHAKEDOWN. NEVERTHELESS, IN LAST TWO WEEKS THERE HAS BEEN SLIGHT INCREASE IN BUSINESS, AS FEAR BY SHOPKEEPERS OF PILLAGING BY FAZ AND INVADERS HAS DWINDLED. SINCE MOST WHOLESALE/RETAIL BUSINESS DEALS IN IMPORTED PRODUCTS, RECOVERY LIKELY TO BE SLOW UNTIL BANK OF ZAIRE LIBERALIZES PROCEDURE TO OBTAIN IMPORT LICENSES AND OPEN LETTERS OF CREDIT. LOCAL BANKS HAVE VITURALLY HALTED ISSUANCE 1/C'S IN LAST THREE MONTHS SINCE BANK OF ZAIRE DECIDED TO SUSPEND HARD CURRENCY ALLOCATIONS TO BANKS HERE IN MARCH BECAUSE OF UNHAPPINESS WITH BANKS' UNAUTHORIZED OPENING OF NEW CREDITS INSTEAD OF LIQUIDATING OLD DEBTS WITH FEBRUARY ALLOCATION.

7. CONCLUSION. IF HOSTILITIES TERMINATE WITHIN COMING WEEKS, SHABA'S ECONOMY LIKELY TO ESCAPE MAJOR PRODUCTION SETBACKS. INVASION RESULTED IN MILITARY EXPROPRIATION OF SUPPLIES AND EQUIPMENT, HARASSMENT OF INTERREGIONAL COMMERCE AND FACTORY WORKERS BY SOLDIERIS, AND GENERAL DECLINE IN CONFIDENCE IN SHABA'S FUTURE, BUT IN SHORT RUN NO MAJOR PRODUCTION LOSSES. BASIC OBSTACLES TO SHABA'S ECONOMIC WELL-BEING--TRANSPORTATION DIFFICULTIES, FUEL SUPPLY PROBLEMS, AND HARD CURRENCY SHORTAGES--EXISTED LONG BEFORE INVASION BEGAN AND NOT SERIOUSLY ALTERED AS RESULT OF INVASION. STEADY DECLINE OF SHABA'S ECONOMY EXPECTED TO CONTINUE AT SAME PACE AS PAST FEW YEARS WITH INVASION PROVIDING ONLY MINOR CONTRIBUTORY FACTORY.

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8. IF HOSTILITIES CONTINUE EITHER IN FORM OF COUNTEROFFENSIVE BY INVADERS OR GUERRILLA INSURGENCY, DRAIN ON SHABA'S RESOURCES COULD BE MORE SERIOUS, PARTICULARLY IF GECAMINES PRODUCTION SHOULD BECOME TARGET OF ATTACKS. WHETHER OR NOT HOSTILITIES CONTINUE IN WESTERN SHABA, DECLINE IN CONFIDENCE IN ECONOMY OF SHABA SEEN AS PRINCIPAL ECONOMIC RESULT OF INVASION. IN VIEW OF POSSIBILITY OF FUTURE MILITARY PROBLEMS, UNPOPULARITY OF GOVERNMENT AND QUESTIONABLE COMPETENCE OF ZAIRIAN MILITARY, INTERNATIONAL INVESTORS LIKELY TO THINK TWICE BEFORE SINKING MONEY INTO MAJOR PROJECTS LIKE SMTF AND LOCAL ENTREPRENEURS WILL BE EVEN MORE HESTITANT ABOUT FUTURE CAPITAL INVESTMENT.

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